

AR46

# CONN CHEM LIMITED ANNUAL REPORT 1976





## Financial Highlights



Conn Chem  
Limited  
and subsidiary  
companies

	1976	1975
Sales	\$ 68,100,000	\$ 60,200,000
Earnings after extraordinary items	3,149,031	2,769,804
Earnings before extraordinary items	2,878,016	2,491,804
Earnings per share after extraordinary items	\$1.48	\$1.03
Earnings per share before extraordinary items	\$1.35	\$0.93

## Statistical Summary

For the Years Ended 1972 to 1976

	1976	1975	1974	1973	1972 (Pro Forma)**
Sales	\$68,108,197	\$60,181,755	\$54,011,192	\$38,259,844	\$32,536,090
Income before extraordinary items	2,878,016	2,491,804	2,016,589	1,859,022	1,633,773
Extraordinary items	271,015	278,000	275,000	96,200	37,000
Net Income	3,149,031	2,769,804	2,291,589	1,955,222	1,670,773
Earnings per share before extraordinary items	1.35	.93	.75	.69	.61
Extraordinary items	.13	.10	.10	.04	.01
Net Income	1.48	1.03	.85	.73	.62
Dividends paid per share	.16	.06*	—	—	—
Return on shareholders' Equity before extraordinary items	22.3%	21.5%	22.0%	23.7%	24.1%
after extraordinary items	24.4%	23.9%	25.0%	24.9%	24.6%

\*Due to a delay in obtaining satisfactory confirmation as to the income tax status of certain surplus accounts, this initial payment was made March 1, 1976 to shareholders of record February 16, 1976. This payment combined the quarterly dividend which was intended to have been paid to shareholders of record September 15, 1975 with the dividend payment for the fourth quarter of 1975.

\*\*The net income for 1972 has been reported on a pro forma basis to give effect to the following transactions which took place in March 1972:

- Sale to shareholders of the Corporation's investment portfolio and real estate not leased to subsidiary companies.
- Acquisition by share exchanges of the remaining issued shares of subsidiaries, Connecticut Chemicals Limited and Chempac Limited.

The following adjustments to income have been made:

- Deletion of all income less expenses arising from the investment portfolio and real estate which were sold.
- Deletion of all capital gains arising from the investment portfolio and real estate which were sold.
- Deletion of the minority interest in the income of the subsidiaries, Connecticut Chemicals and Chempac Limited.

**Head Office**  
24 Curity Avenue  
Toronto, Ontario  
M4B 1X8

**Legal Counsel**  
Lang, Michener, Cranston, Farquharson  
and Wright  
First Canadian Place  
Toronto, Ontario

**Transfer Agent and Registrar**  
Canada Permanent Trust Company,  
Toronto, Montreal, Winnipeg,  
Regina, Calgary, Vancouver

**Auditors**  
Thorne Riddell & Co.  
Chartered Accountants  
Toronto

## Officers

Gordon Saunders Lang, P.Eng.,  
President and Chief Executive  
Officer, and Chairman of the Board

Edward Grant Johnston,  
Executive Vice-President and President  
Aerosol Division

Edward Wilson Dobson, C.G.A.,  
Executive Vice-President and  
Chief Administrative Officer

John Kenneth Irvine, B.A.,  
Executive Vice-President and President  
Non-Aerosol Division

Guy Richard Gossling, C.A.,  
Secretary-Treasurer

James John Wega, B.A., M.C.I.C.,  
Vice-President of Corporate  
Quality Control and Development

Andries Mulder,  
Vice-President, Operations  
Aerosol Division

Russell Geoffrey,  
Vice-President, Sales  
Aerosol Division

W. Donald Brewer, B.A., C.A.  
Corporate Controller

## Directors

Gordon Saunders Lang, P.Eng.

James Davison Lang

Edward Grant Johnston

Edward Wilson Dobson, C.G.A.

Clifford Leonard Mort, P.Eng.

Reuben Lerner, C.A.

Albert Gnat, B.A., LL.B.

John Kenneth Irvine, B.A.

Owen F. Elliott, B.A.Sc.



*Gordon S. Lang, President, Conn Chem Limited.*

## To Our Shareholders:

1976 was an eventful year for your Company in which successful financial results were achieved; significant improvements in efficiencies were established; and important groundwork was laid toward an even stronger Company for the future.

Conn Chem and its subsidiaries comprise the largest, most diversified and most successful custom manufacturer and packager in Canada of personal care, household, pharmaceutical, paints and many other consumer products.

Your Company's role is to provide a "Total Packaging Concept" — one which involves a total manufacturing responsibility. It combines the personnel, the equipment, the physical space, the expertise, including Research/Development/Quality Control and the vanguard-type thinking to manufacture, fill and package virtually any product conceived by consumer product marketers — from paints to pharmaceuticals, foodstuffs to toiletries, mouthwash to cleansers, and a host of others. Take an idea, translate it to a chemical formula, compound the bulk materials into a product, fill it into a package, ship to the market. Those are

the tasks your Company performs routinely for a broad cross section of Canada's foremost marketers.

To meet customer specifications — of any complexity — Conn Chem has the capacity to manufacture and package aerosol, powder, liquid and many other products. These products were filled into flexible pouches, boxes, glass or plastic bottles, or metal cans by the scores of millions in the year just passed.

Among the financial highlights for the year:

- sales reached a new high of \$68 million, compared with \$60.2 million in 1975;
- net earnings were \$3,149,031 after extraordinary items, compared with \$2,769,804 in the previous year;
- net earnings were \$2,878,016 before extraordinary items, compared with \$2,491,804 in the previous year;
- net earnings per share were \$1.48 after extraordinary items, compared with \$1.03 in 1975;
- net earnings per share were \$1.35 before extraordinary items, compared with 93 cents in 1975.

## Extraordinary Items

During 1973 and 1974 your Company made two important acquisitions—Peterson/Puritan Canada Ltd. and Dart Packaging Ltd., both of which had accumulated substantial losses prior to their purchase by Conn Chem. Management was convinced that, ultimately, both of these companies would respond positively to Conn Chem's management. Both operations have, in fact, been markedly improved since acquisition. The combination of customer relations expertise and attention to production efficiencies that have made your Company's operations successful in the past have proved effective in both instances.

Accordingly, a reduction of income tax in the amount of \$611,015 is shown as an extraordinary item in 1976 figures.

## Significant Change

Two items of great potential importance occurred during the year just passed.

The Company purchased 725,000 of its own shares for cancellation. This purchase was completed at an advantageous price and had the affect of increasing the proportion of issued shares now held by the Canadian public, and in addition, of markedly increasing earnings per share on the remaining shares for all the remaining shareholders.

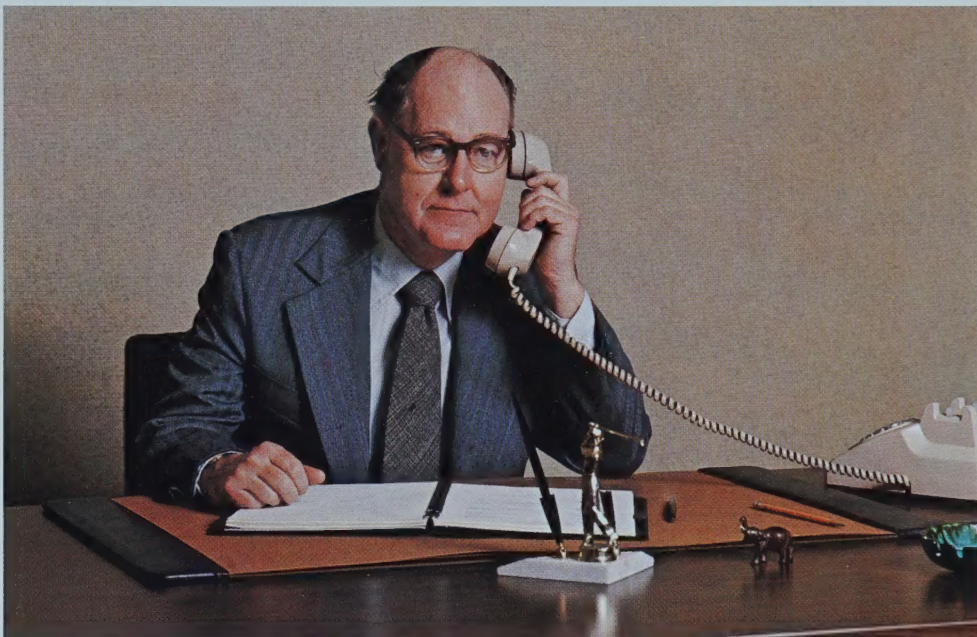
In the financial information given elsewhere in this report, 1976 earnings per share are calculated on the weighted average basis. If earnings per share had been calculated on the basis of shares outstanding as of December 31, 1976, they would have been \$1.41 before extraordinary items and \$1.55 after extraordinary items.

The second event was a proposal, since abandoned, to merge your Company with another large Canadian public corporation. The management felt that the proposed merger terms were advantageous to Conn Chem shareholders. Prior to taking effect, however, your Company was asked to extend the time period originally established for analysis by both corporations. The request for the extension was based upon the desire by the other partner to analyze at greater length the affects of announced proposed legislation concerning the use of certain fluorocarbons as a propellant for some aerosol products. Your Directors reluctantly concluded that such an extension of time could create uncertainties that would be detrimental to Conn Chem shareholders and the result was cancellation of the merger plan.

## The Aerosol Controversy

While regulatory bodies are questioning the use of certain fluorocarbons as aerosol propellants, refrigerants and blowing agents, it is important to understand that your Company is not too dependent upon these chemicals. In fact, as stated in last year's Annual Report, sufficient progress has been made toward the formulation of alternative propellant systems to ensure continuation of both cost and quality benefits to the ultimate consumer, to our customers, and to Conn Chem's own financial results.

For the sake of clarity Conn Chem shareholders should know that aerosol products which used the fluorocarbons subject to proposed regulations comprised less than 15% of your Company's total sales for 1976. It is anticipated that by the end of 1977 this figure will be reduced to some 7% or less. If required, your Company will be able to meet the late 1978 deadline for complete re-formulation and replacement of fluorocarbons 11, 12 and 114 where necessary.



*Edward W. Dobson, Executive Vice-President and Chief Administrative Officer, Conn Chem Limited.*



*Edward G. Johnston, President, Aerosol Division.*



*J. Kenneth Irvine, President,  
Non-Aerosol Division.*

## A Look at Operations and The Future

The following pages review the operational highlights of the different divisions and subsidiaries of your Company.

This year's review highlights the many and complex operations of research, development and quality assurance operations of the Company.

These activities occupy a staff of 60 qualified laboratory specialists working in 10 individual laboratories plus large numbers of on-line quality assurance stations.

Your Company sees research, development and quality assurance as one of the most vital elements for its continued success. Accordingly, it is appropriate to acknowledge those contributions on the following pages.

For the future the outlook is excellent.

Evidence indicates that the uncertainties of the past two or three years concerning the aerosol fluorocarbon controversy have been resolved from all points of view, but especially those of governments, consumers, marketers and your Company.

This segment of our business is prepared for consistent growth in the years ahead.

Chempac continues to grow at a fast rate and all signs point to a continuance of this trend.

In the graphic arts division, the demand for pressure sensitive paper is increasing rapidly.

For the long term your Company foresees sustained profitable growth and for 1977 the outlook is for satisfactory results from all divisions.

And finally, a tribute to all of the employees is appropriate. 1976 was an eventful year—packed with both problems and opportunities. The loyal and effective contribution by all employees is hereby gratefully acknowledged.

Gordon S. Lang  
President

April 11, 1977

## Administrative Advances

Your Company completed a highly effective changeover from manual to computerized accounting, inventory control of both raw materials and finished products, purchasing and billing for the largest division during the year just passed. Efficiencies have been achieved and extension of the concept to other divisions is underway.

Attention continues to be given to your Company's historic policy of developing management from within.

As a result of this policy, your Company has the management in depth to handle new growth either by acquisition or by the internal expansion of our existing businesses.

## Internal Growth and Acquisition

Internal growth is consistently given high priority. Growth by acquisition is also highly considered—providing that companies available for purchase or merger meet rigid criteria. Primarily they must be industries relevant to Conn Chem's existing skills.

In terms of internal growth, several significant improvements were made during the year. Among them were:

- Addition of three automatic high-speed case formers and case packers at the Conn Chem Aerosol Division;
- Complete modernization of production facilities of Armstrong-Lang;
- Substantial space addition at K-G Packaging;
- Addition of automated powder can filling lines at Chempac Carlingview;

- Upgrading of filling lines at Chempac Bethridge;
- Addition of new filling lines for agricultural chemicals at Chempac Jutland.

## Dividends and Shareholders Tax

During the year, your Company's directors increased the dividend on all common shares to a level of 5¢ per share per quarter.

Early in 1977 an additional dividend increase of 4 cents per share per year was approved by your Directors. The quarterly dividend payable March 31 to shareholders of record March 15 was 6 cents per share.

In previous communications to shareholders and in the 1975 Annual Report, considerable attention has been given to the difference between the Class A and Class B common shares. Your management thinks this is sufficiently important to review again.

Both Classes are freely interchangeable. However, while the Class B shares have all rights and privileges of Class A shares, they are entitled to receive tax deferred dividends. Dividends paid on the Class B shares are paid from the capital surplus of the Company on hand at 1971 and such dividends do not require the payment of a special 15% tax on the Company's surplus from which the dividend is paid. Shareholders are advised to consult their own tax counsel concerning conversion between Class A and Class B shares.

## AEROSOLS

Aerosols are produced by three company groups: Conn Chem, Armstrong-Lang, and K-G Packaging.

### Conn Chem

The Conn Chem Aerosol Plant is responsible for an enormous variety of consumer aerosol products found on the shelves of Canadian homes—hair sprays, shaving creams, and other personal care products, oven cleaners, window cleaners, rug shampoos, furniture waxes, spray laundry cleaners and starches, room deodorants, air fresheners and disinfectants, insecticides and other home and garden products. This wide range of consumer products can be readily compounded and filled on high speed, versatile aerosol filling lines linked to computer controlled supply from bulk material tanks. Rapid changeover is a fundamental requirement for Canadian success and as a result of engineering innovations pioneered at this plant, it is widely considered to be one of the world's most efficient in terms of flexibility.

Facilities were upgraded considerably, including installation of new hygienic safety floors, air conditioning and air filter systems. Implementation of monitoring systems led to a reduction in energy consumption.

After five years of research and testing, automated case-forming and packing machines were installed successfully on three filling lines to achieve labor savings and improved line speeds.

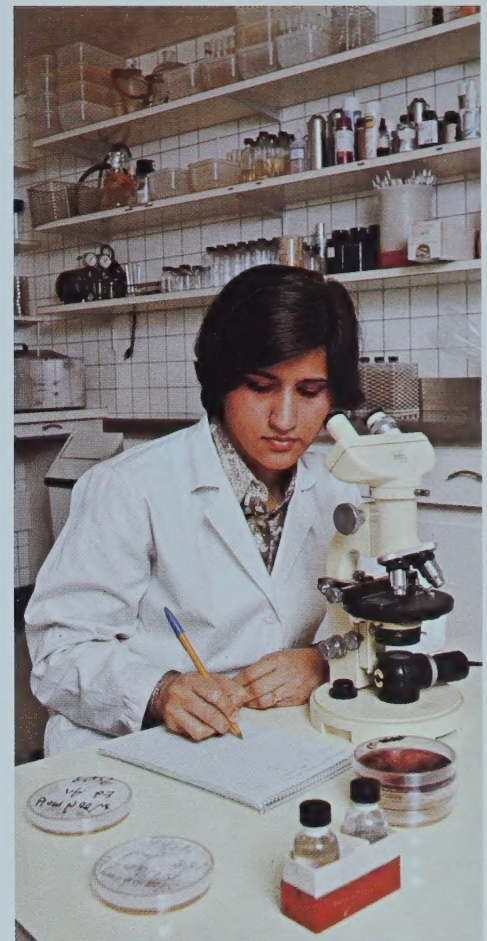
Of course, research and development has a high priority. To meet the restraints made by the Environmental Contaminants Act, your Company's chemists have developed alternate propellant systems which substitute other propellants for the controversial specific fluorocarbons which must be phased out of most aerosols by 1978. Among the benefits to date are a number of new product formulations.

The improved propellants and formulations benefit the consumer, while at the same time meet the rigid requirements of the Food and Drug Directorate. Your Company is confident of federal approval during 1977 for all or most of the proposed formulation improvements.

In addition to research and development, quality control is another major responsibility. This Division is the location for a well equipped microbiology lab which tests foods, cosmetics or drugs produced company-wide to insure the efficacy and safety of these products and the absence of any harmful organisms. One interesting safety factor is the use of ultraviolet lights at night to disinfect the laboratory.

Conn Chem also stores samples of both bulk materials and finished products from every lot or product run. Bulk materials are kept for two years and samples of shipped products are retained for five years for future quality reference.

The outlook for the future is excellent.



*Brig Singh fills out a report on a product undergoing examination in Conn Chem's microbiology lab.*



*Jim Wega, Vice-President, Corporate Quality Control and Development, and Bob McLean check bacteria count on a Quebec Colony counter in Conn Chem's microbiology lab.*



*Christine Johnston, Lab Technician, adds propellant to several sample aerosol products in Conn Chem's Product Development Lab.*

## Armstrong-Lang

This wholly owned subsidiary is located in its own section of Conn Chem's main plant in East York. It formulates and packages aerosol cosmetics and toiletries such as perfumes, colognes, and deodorants and both prescription and proprietary drugs. In addition to aerosols, Armstrong-Lang also produces many products in alternate forms such as drugs and cosmetics which still require extraordinarily high standards of testing and quality control.

Virtually the entire Armstrong-Lang production facility was re-built during 1976 to meet stringent new regulatory requirements set by the federal government. As a result of the 1976 major upgrading of compounding and packaging facilities, this plant should meet anticipated regulatory requirements for several years to come.

Customer response to this new facility has been gratifying and Armstrong-Lang's capability to produce a wide variety of quality-sensitive products has resulted in the achievement of an aggressive leadership. Notwithstanding major disruptions due to the total upgrading of the plant, sales volumes were maintained.

While Armstrong-Lang has made substantial progress in the area of manufacturing ethical and proprietary drugs in aerosol form, including important new propellant systems for perfumes and colognes, expansion has also occurred in the manufacture and packaging of other products which are relative to the Division's highly specialized compounding and packaging expertise.

Many of these new products were previously manufactured at Chempac. Savings in costs and streamlined efficiencies in production, packaging, and quality assurance surveillance are the benefits achieved by consolidating all drug manufacture within one Division of your Company.

All drug products undergo rigorous testing. Each raw bulk material is analyzed for purity, and after blending, the bulk formula is examined. Then a sample is rechecked after it has been filled. Finally every lot of drug production is kept under quarantine in its entirety until Armstrong-Lang is satisfied that the product meets all quality criteria and packaging specifications.



*Armstrong-Lang and Conn Chem share equipment and facilities in this large quality control lab. Filling lines located a distance from this lab are serviced by an on-floor satellite quality control station.*

## K-G Packaging

K-G Packaging is equipped with highly specialized equipment and trained personnel to produce at high speeds such specialized aerosols as paints and consumer automotive products. In addition, this Division employs its technology for the compounding, filling and packaging of other consumer product forms.

During the past year a new 36,000 square foot building was added, designed specifically for ready conversion to additional manufacturing capacity when needed. An additional aerosol filling line was nearing completion at the end of the year.

Space for the Product Development and Quality Control Laboratory was doubled during the year and research continues to receive high priority. Extensive development work is particularly desirable for new paints which, for example, undergo multiple tests for color durability, covering and drying capabilities before reaching market.

The Division anticipates an excellent year in 1977.

## CHEMPAC

Chempac is a major manufacturer and packager of foods, personal care products, household and agricultural products, detergents and cleansers and many other types of products.

During 1976, Chempac continued to consolidate its position as Canada's most important quality-oriented custom manufacturer and packager of consumer products.

In each of its three major divisions—liquid products, flexible packaged products, and powder products—production, sales to marketers, research and development advances were achieved.

## Liquids

The liquid filling division of Chempac manufactures and packages an enormous variety of cosmetics and toiletries for both men and women, a wide range of hair care products, household cleaners, disinfectants and air fresheners, mouthwashes and other personal care items and including a number of popular consumer products such as roll-on deodorants, pre-moistened towelettes, etc. New product ranges are being added constantly. In 1976 these included sun tan products and in-home gardening liquids.

As a result of extensive development in the past two years, a broad range of these products are being packaged with mechanical spray pump applicators.



*In the lab of K-G Packaging, Jim Agostino, Quality Control Supervisor, checks the crimp diameter of a mounting cup to be sure that aerosol-propelled product will not leak.*



*Janet LeClair newly appointed Quality Control Supervisor at Chempac-Carlingview, weighs a can of beverage crystals at an on-line scale.*

The Division operates numerous separate, fully flexible fast changeover filling lines in an ultra-modern plant on Bethridge Road. Four of these lines are highly automated operations capable of filling more than 100 packages per minute.

In response to a growing demand for plastic containers, Chempac upgraded several lines to be able to accommodate plastic bottle filling, capping and labelling. A new plastic container filling line is scheduled for installation in early 1977 and will increase Chempac's facility with plastic container filling by some 30%.

In 1976 another line was custom modified to handle the new business of producing and packaging in-home garden liquids. A number of other filling lines were modernized, and new bulk storage tanks and compounding areas were expanded during the year.

The Division also maintains several specialty compounding areas and filling lines specifically devised for filling tubes or for the production of creams, lotions, sticks, and other specialty products or specialty presentations. These sections are radically different from the high speed highly automated facilities in use elsewhere at the plant and are a key element in the Division's concept of customer service. Great importance is attached to ensuring that our customers achieve the same high standard of product and service performance on short run or unusual presentation products as they receive for high volume products.

This Bethridge Road facility houses the main hair care laboratory for the entire Company and the main research and development laboratories for all three Divisions within the Chempac group. Extensive research and development activities are maintained by the

liquid division. Constant efforts are underway for the invention of new products, the betterment of existing products, and for the purpose of ensuring that advanced chemical and industrial engineering techniques are applied quickly for the purposes of quality improvement and cost reduction. Simultaneously, the quality control laboratories maintain a constant check on every product on every line. Raw materials are tested before manufacture, compounded products are spot checked during the filling operations and the finished products are rigorously examined before release.

The Division anticipates highly satisfactory results in 1977.



*Terry Running, Quality Control Manager at Chempac-Bethridge, compares an on-line sample against the standard product at the Bethridge on-floor quality control office with Peter Berry, seated, and Nora Lencina.*



*Mary Mantler checks the pH for one of the powder products packaged at Chempac-Jutland.*

## Flexible Packaged Products

Flexible packaging, including individual portion pouch packaging, remains a popular packaging form in the North American packaging industry today.

The materials include powders, liquids and heavy creams. The products include drink crystals, instant hot chocolate, coffee, seasonings, rices, popcorn and a large number of other drink and food substances, proprietary medicines, shampoo and other hair care materials, etc.

The flexible pouch plant contains 14 filling operations, all in individually isolated filling rooms, and each supported by sophisticated blending and metering systems. In 1976 humidity control, electronic air filtering and air conditioning systems were installed in two areas, designed with the capability to be extended and doubled when required. Two high speed powder filling lines were redesigned in 1976 to provide for packaging of drink crystals in cans with reclosable lids. This new packaging trend is enjoying considerable success on supermarket shelves.

Extensive activity in research and development was undertaken during the year with the primary thrust devoted to broadening the already large list of products suitable for this type of packaging.

Quality control is a major function within the plant and considerable success has been achieved in maintaining total quality assurance relative to finished package weight, a check for faulty seals and tests for appropriate package function and performance.

Market conditions are favorable for 1977.

## Powders

The powder facility on Jutland Road is your Company's specialist in the field of manufacturing and filling of household and some industrial powder products. These include toilet bowl cleaners, drain openers and other household cleansers, detergents for home and institutional laundry and dishwashers, bubble bath, bath beads, cosmetic powders and agricultural chemicals.

The Division added three new filling lines during the past year for agricultural products, including one line for filling agricultural liquid products and another line which will fill flexible packages. These lines were isolated in a production area which was specially designed to insure employee safety and to more than meet environmental protective precautions. By initiating this upgrading of

facilities and diversification of manufacturing and packaging capabilities, Chempac on Jutland has strategically positioned itself for the acquisition of new business from the agricultural chemicals industries.

Successful experience with the use of a new bulk caustic soda bead storage silo which is linked to computerized blending systems will result in the installation of additional storage silos and computerized blending systems in 1977.

The research and development activity of the Division was expanded during the year. Projects included experimentation with new packaging forms and the development of new product lines of insecticides, herbicides and fertilizers.

Quality control maintained constant on-line inspectors to insure that weight, carton seal and other product checks are maintained satisfactorily. Of course, frequent spot samples are removed from the filling line to undergo wet chemistry, titration and formula analysis testing.

A high level of activity is anticipated for 1977.

## Kleen-Stik

Kleen-Stik is one of Canada's major manufacturers and suppliers of pressure sensitive adhesive coated papers, foils, films and tapes to the graphic arts industry.

Kleen-Stik supplies master and slit rolls, sheets and tapes of adhesive coated papers to printers, paper merchants and business forms suppliers across Canada and to export markets around the world.

1976 was the first full year of operation for Kleen-Stik since its acquisition by Conn Chem, and results were satisfactory both in sales and research.

The end uses for these pressure sensitive materials include: warranty and safety instructions; brand name labels; operation instructions; price labels; decals; special sale information; name tags; computer tape; and many others.

The product is both research and quality control sensitive. There are four variables: the printable paper (face stock); the adhesive formula; the silicone formula which provides easy peeling of the protective release paper; and the protective release paper. Any or all of these factors may vary according to the planned use of the final products.

Kleen-Stik is acknowledged as one of the production leaders and product innovators in Canada. Research and development at

Kleen-Stik emphasizes both product improvement and the creation of new adhesive formulae and new products which will provide the graphic arts industry with a wide variety of pressure sensitive products which will meet performance specifications for end uses. As a result of high levels of R & D activities, Kleen-Stik maintains an enviable reputation for its variety of exclusive adhesives.

In 1976 the Division developed a new product *Krak-Kleen*® which is a strip and peel label material in sheet form. This partially perforated product offers printers additional flexibility and improved reliability of product along with a potential reduction in product waste. Initial sales in early 1977 indicate that *Krak-Kleen* will be well received by Kleen-Stik's customers.

As well as its attention to research and development, Kleen-Stik maintains strict quality control checks on every roll of paper produced. A sample is examined for paper thickness, weight, adhesive performance, and the release efficiency of the silicone coated backing paper.

Production efficiency was upgraded during the year to meet dramatically increasing demand from both domestic and export markets and the likelihood of proceeding with significant expansion of productive capacity in 1977 is high.

Kleen-Stik is also exclusive Canadian distributor for Labelaire® systems which provide specialized methods for the application of pressure sensitive labels on high speed production lines.

The Division anticipates continued success through 1977.

## Craft Graphics

This Division of your Company is a printing resource having specialist capability for the production of labels and other packaging materials used by the various divisions of the corporation.

Modern packaging demands a sophisticated attention to printing precision. Production quality is important in two ways. Labels and cartons must faithfully reflect the designers' concept and, equally important, they must perform reliably on high-speed, automated equipment.

In addition, Craft's location in downtown Toronto positions it strategically to serve its other printing customers quickly and economically.



*Ken Eastman, Research and Development Director, measures the strength of a new adhesive at Kleen-Stik.*

# Consolidated Statement of Income and Retained Earnings

Year Ended December 31, 1976

	1976	1975
<b>Sales</b>	<b>\$ 68,108,197</b>	<b>\$ 60,181,755</b>
Income from operations before undernoted items	\$ 7,182,629	\$ 6,203,938
Depreciation	1,165,919	1,064,573
Amortization of goodwill	58,948	65,948
Interest expense	577,446	409,813
Remuneration of directors and senior officers	373,500	273,500
	2,175,813	1,813,834
Income before undernoted items	5,006,816	4,390,104
Income taxes		
Current	1,590,435	1,442,600
Deferred	538,365	455,700
	2,128,800	1,898,300
<b>Income before extraordinary item</b>	<b>2,878,016</b>	<b>2,491,804</b>
Income tax reduction of subsidiary companies arising from carry-forward of prior years' losses net of write down of goodwill in 1976 of \$340,000 (note 1 (e))	271,015	278,000
<b>Net Income</b>	<b>3,149,031</b>	<b>2,769,804</b>
Retained earnings at beginning of year	7,537,435	4,767,631
	10,686,466	7,537,435
Dividends Paid		
Class A special shares	257,160	
Class B special shares	229,779	
	486,939	
Cancellation of participating special shares purchased (note 6)	1,543,758	
	2,030,697	
<b>Retained earnings at end of year</b>	<b>\$ 8,655,769</b>	<b>\$ 7,537,435</b>
<b>Earnings per share (note 7)</b>		
Income before extraordinary item	\$ 1.35	\$ .93
Extraordinary item	.13	.10
Net income	\$ 1.48	\$ 1.03



Conn Chem  
Limited  
and subsidiary  
companies

## Consolidated Balance Sheet

December 31, 1976

### Assets

1976

1975

#### Current Assets

Term deposit	\$ —	\$ 2,162,085
Accounts receivable		
Trade	8,808,230	9,489,442
Other (note 2)	214,202	365,796
Inventories (note 3)	7,211,432	7,696,617
Prepaid expenses	56,965	72,503
	<b>16,290,829</b>	<b>19,786,443</b>

#### Fixed Assets (note 4)

Land, buildings and equipment	16,149,704	13,802,743
Less accumulated depreciation	8,707,897	7,546,605
	<b>7,441,807</b>	<b>6,256,138</b>

#### Other Assets

Loans receivable (note 5)	474,420	325,700
Licence agreement	84,379	—
Goodwill (note 1(e))	1,900,986	2,298,934
	<b>2,459,785</b>	<b>2,624,634</b>

**\$26,192,421**

**\$28,667,215**

Approved by the Board

Director

Director

## Liabilities

	1976	1975
<b>Current Liabilities</b>		
Bankers' acceptance	\$ 1,000,000	\$ —
Bank loans	2,695,000	3,520,000
Bank overdraft arising from outstanding cheques	1,510,213	2,866,511
Demand loans	—	175,000
Accounts payable and accrued liabilities	6,116,519	6,792,307
Income and other taxes payable	743,278	664,648
Principal due within one year on long term liabilities	142,865	296,010
	<b>12,207,875</b>	<b>14,314,476</b>
<b>Long Term Liabilities at various interest rates</b>	<b>300,347</b>	<b>443,212</b>
<b>Deferred Income Taxes</b>	<b>879,600</b>	<b>952,250</b>
<b>Shareholders' Equity</b> (note 6)		
<b>Capital Stock</b>		
Authorized		
3,315,000 Class A & B participating special shares without par value (1975 4,040,000)		
1,000 Common shares without par value		
Issued		
1,165,600 Class A special shares (1975 2,696,452)	2,376,290	5,419,842
869,452 Class B special shares	1,772,540	—
	<b>4,148,830</b>	<b>5,419,842</b>
<b>Retained Earnings</b>	<b>8,655,769</b>	<b>7,537,435</b>
	<b>12,804,599</b>	<b>12,957,277</b>
	<b>\$26,192,421</b>	<b>\$28,667,215</b>
Long term leases (note 8) Purchase commitments (note 9)		

## Auditors' Report

To the Shareholders of Conn Chem Limited

We have examined the consolidated balance sheet of Conn Chem Limited as at December 31st, 1976 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Canada.  
February 28th, 1977

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31st, 1976 and the result of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell & Co.  
Chartered Accountants,



Conn Chem  
Limited  
and subsidiary  
companies

## Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1976

	1976	1975
<b>Financial Resources were provided by:</b>		
Income before extraordinary item	\$ 2,878,016	\$ 2,491,804
Items not involving current funds		
Depreciation	1,165,919	1,064,573
Amortization of goodwill	58,948	65,948
Deferred income taxes	538,365	455,700
Amortization of licence agreement	15,621	—
Contribution from operations	4,656,869	4,078,025
Disposal of fixed assets	12,109	62,553
Repayment of loans receivable	26,800	39,300
Issue of shares under stock option plan	193,980	—
	<b>4,889,758</b>	<b>4,179,878</b>
<b>Financial Resources were used for:</b>		
Additions to fixed assets	2,363,697	987,996
Licence agreement	100,000	—
Acquisition of subsidiary companies		
Purchase of shares for cash	—	2,140,451
Assumption of working capital deficiency	—	710,294
Reduction in non-current portion of long term liabilities	142,865	318,416
Additional investment in shares of subsidiary company	1,000	194,000
Loans receivable	175,520	365,000
Dividends paid	486,939	—
Purchase and cancellation of participating special shares	3,008,750	—
	<b>6,278,771</b>	<b>4,716,157</b>
<b>Decrease in Financial Resources</b>	<b>1,389,013</b>	<b>536,279</b>
Financial Resources at beginning of year	5,471,967	6,008,246
<b>Financial Resources at end of year</b>	<b>\$ 4,082,954</b>	<b>\$ 5,471,967</b>
<b>Changes in Financial Resources</b>		
<b>Increase (decrease) in current assets</b>		
Term deposit	\$ (2,162,085)	\$ 2,162,085
Accounts receivable trade	(681,212)	1,751,087
Accounts receivable, other	(151,594)	(129,791)
Inventories	(485,185)	25,016
Prepaid expenses	(15,538)	5,014
	<b>(3,495,614)</b>	<b>3,813,411</b>
<b>Increase (decrease) in current liabilities</b>		
Bankers' acceptance	1,000,000	(2,000,000)
Bank loans	(825,000)	3,520,000
Bank overdraft arising from outstanding cheques	(1,356,298)	1,003,296
Demand loans	(175,000)	(745,000)
Accounts payable and accrued liabilities	(675,788)	2,340,279
Income and other taxes payable	78,630	160,028
Principal due within one year on long term liabilities	(153,145)	71,087
	<b>(2,106,601)</b>	<b>4,349,690</b>
<b>Decrease in financial resources</b>	<b>\$ 1,389,013</b>	<b>\$ 536,279</b>

# Notes to Consolidated Financial Statements

Year Ended December 31, 1976

## 1. Summary of Significant Accounting Policies

### (a) Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies.

### (b) Inventories

Raw materials are valued at lower of cost and replacement cost. Finished goods are valued at lower of cost and net realizable value.

### (c) Fixed Assets

Land, buildings and equipment are carried at cost. Depreciation is provided generally at the following rates and on the basis indicated:

	Rate	Method
Buildings	5%	Diminishing balance
Leasehold improvements	Term of lease	Straight line
Machinery and equipment	20%	Diminishing balance
Automotive equipment	30%	Diminishing balance

### (d) Licence Agreement

The cost of the licence is being amortized on a straight line basis over 8 years, being the period during which the company will receive royalty payments provided for under the terms of this agreement.

### (e) Goodwill

Goodwill, being the excess of the cost of shares of subsidiaries over the book value of the underlying net tangible assets and which relates to the acquisition of subsidiaries after April 1, 1974 is valued at cost less amortization. To comply with generally accepted accounting principles, goodwill arising on such acquisitions is amortized on a straight line basis over 40 years. Goodwill arising before that date has been written off to retained earnings. Any reduction in value will be reflected as a charge to income in the year recognized.

## 2. Accounts Receivable, Other

Included in this account are amounts due from directors and officers aggregating \$90,077 (\$100,267 in 1975).

## 3. Inventories

	1976	1975
Raw materials	\$5,015,862	\$5,454,986
Finished goods	2,195,570	2,241,631
	<u>\$7,211,432</u>	<u>\$7,696,617</u>

## 4. Fixed Assets

	1976		1975	
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 466,083		\$ 466,083	\$ 158,249
Buildings	3,618,507	\$ 1,070,000	2,548,507	1,738,113
Leasehold improvements	995,231	484,728	510,503	529,711
Machinery and equipment	10,626,696	6,857,989	3,768,707	3,672,748
Automotive equipment	443,187	295,180	148,007	157,317
	<u>\$ 16,149,704</u>	<u>\$ 8,707,897</u>	<u>\$ 7,441,807</u>	<u>\$ 6,256,138</u>

## 5. Loans Receivable

Loans receivable represents amounts advanced to directors and officers without interest under an executive compensation plan. These loans are secured by demand promissory notes and collateral first mortgages on properties owned by such directors and officers. These loans will be repaid over approximately a 10 year period.

	1976	1975
Balance at December 31	\$505,620	\$351,700
Less: amounts included in accounts receivable, other	31,200	26,000
	<u>\$474,420</u>	<u>\$325,700</u>

## 6. Shareholders' Equity

(a) The Class "A" and Class "B" shares are convertible into one another on a share for share basis and rank equally in other respects except for dividends. If any shares are converted, the authorized and issued A & B shares are adjusted accordingly. The maximum number of A & B shares which may be outstanding at any one time is restricted to a total of 3,315,000. Dividends on the "A" shares are taxable dividends for purposes of the Income Tax Act (Canada). Dividends on the "B" shares may be paid out of capital surplus and will be tax free to shareholders, subject to a corresponding reduction in the shareholders' cost base of their shares. Because dividends paid on the Class B shares will not necessitate the payment by the company of a special 15% tax on the surplus from which the dividend is paid, the dividend rate will be identical to that paid to the holders of the Class A shares.

(b) The company has obtained a favourable tax confirmation that it has substantial 1971 capital surplus on hand and that 1971 undistributed income on hand is nil.

(c) On February 11th, 1976 the company issued a request for tenders on the outstanding Class "A" and Class "B" shares at a price not to exceed \$4.15 per share. The shares tendered were as follows:

Class	Number of Shares	Purchase Price
A	Nil	Nil
B	725,000	\$3,008,750

On the purchase for cancellation of the above shares \$1,464,992 was applied to reduce the paid up capital stock and \$1,543,758 was deemed to have been paid as a dividend on those shares by virtue of the provisions of the Income Tax Act (Canada) and was applied to reduce retained earnings.

- (d) During the year 63,600 Class A special shares were issued for a cash consideration of \$193,980 on the exercise of stock options.

Under the terms of the stock option plan, 120,000 Class A Special Shares have been set aside for purchase by employees. At December 31, 1976 63,600 shares had been issued under this plan and options are outstanding on 42,400 shares at \$3.05 per share and 14,000 shares at \$5.00 per share. The last of these options expires in 1981.

## 7. Earnings Per Share

Earnings per share have been calculated using the weighted average method. In 1976 these calculations reflect shares purchased for cancellation and shares issued under the stock option plan. 1976 fully diluted earnings per share based on the number of shares

outstanding at the end of the year and after giving effect to share options outstanding under the employee stock option plan are:

Income before extraordinary item	\$1.38
Extraordinary item	.13
Net income	<u>\$1.51</u>

## 8. Long Term Leases

Property leases entered into by the subsidiaries of Conn Chem Limited extend into the year 1994, the minimum rental for which (exclusive of taxes, insurance and other occupancy charges) is as follows:

1977-1981	\$ 1,967,130
1982-1986	1,649,397
1987-1991	536,715
1992-1994	268,357

## 9. Purchase Commitments

The company is committed to fixed asset purchases in 1977 of approximately \$1,250,000.

## 10. Anti-Inflation Act

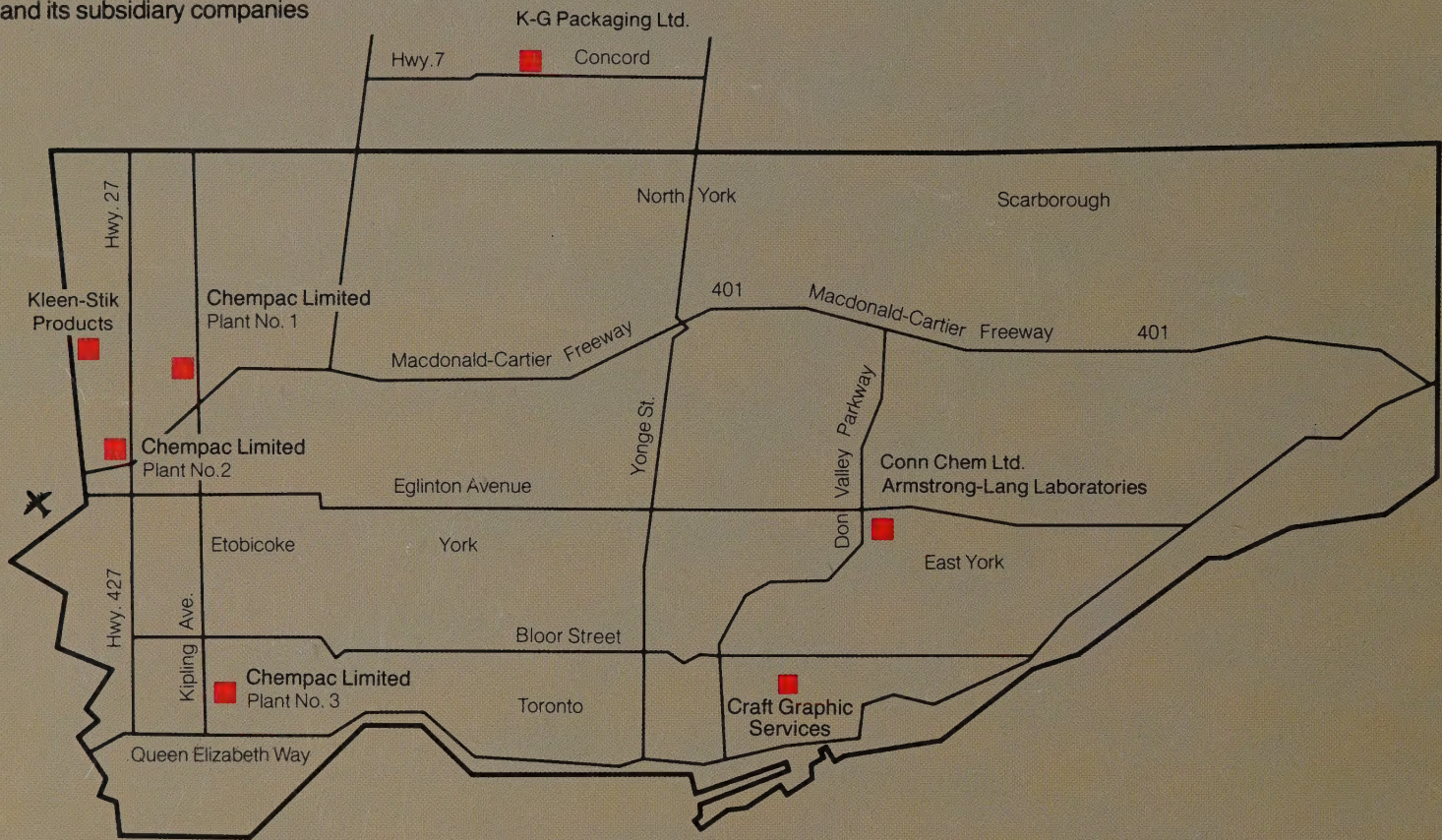
The Company is subject to the Anti-Inflation Act which provides as from October 14th, 1975 for the restraint of profit margins, prices, dividends and compensation in Canada. In the opinion of management, the company has complied with the provisions of this act.

The Annual Meeting of the Company  
will be held on June 14, 1977 at 11:00 a.m.  
at the Quebec Room of the Royal York Hotel  
100 Front Street West  
Toronto, Ontario



# CONN CHEM LIMITED / TORONTO / ONTARIO

Conn Chem Limited  
and its subsidiary companies



Conn Chem Limited  
24 Curity Avenue  
Toronto, Ontario

Armstrong-Lang Laboratories Limited  
30 Curity Avenue  
Toronto, Ontario

K-G Packaging Limited  
8001 Keele Street  
Concord, Ontario

Chempac Limited  
Plant #1  
13 Bethridge Road  
Toronto, Ontario

Chempac Limited  
Plant #2  
387 Carlingview Drive  
Toronto, Ontario

Chempac Limited  
Plant #3  
104 Jutland Road  
Toronto, Ontario

Peterson/Puritan Canada Limited  
30 Waterman Avenue  
Toronto, Ontario

Dart Packaging Limited  
13 Bethridge Road  
Toronto, Ontario

Kleen-Stik Products  
6520 Viscount Road  
Mississauga, Ontario

Craft Graphic Services Ltd.  
235 Carlaw Avenue  
Toronto, Ontario

Prolux Packaging Limited  
26 Waterman Avenue  
Toronto, Ontario